

What are Leading and Lagging Indicators??

What is an indicator?!

An indicator is anything that can be used to predict future financial or economic movements. We will talk about a few main types:

Market or Economic: Unemployment rates, housing starts, inflationary indexes and consumer confidence etc.

These are indicators that are based on market and economic factors.

Proxy Assets: S&P, EURUSD, US 10 Year Notes etc.

These are indicators that often move before other assets move. Eg. US 10 Year Notes may move before the Canadian 10 Year Note move. Hence, the US 10 Year is a proxy asset to the Canadian 10 Year.

Fundamental: Earnings release, P/E ratio etc.

These are indicators related to the business condition of your asset (in this case it is usually a stock).

Technical: Moving Averages, RSI etc.

These are indicators calculated using market data (prices, volume, time etc).

Leading vs Lagging

There are two types of indicators: leading and lagging.

1. A **leading** indicator gives a signal before a move occurs.
2. A **lagging** indicator gives a signal after a move occurs.

So why don't we just find all the leading indicators and develop a riskless "Holy Grail" strategy?

Yup that is the dream. But leading indicators don't always work the way we want it to. Why? After you identify a leading indicator:

1. They may not work in certain market conditions.
2. They may not work in certain periods.
3. They are difficult to identify/find in the first place.
4. They may stop working altogether when a structural change happens.